

**T. Rowe Price**

100 East Pratt Street Baltimore, Maryland 21202

Presentation To:

**State of Wisconsin**

**Non-U.S. Equity**

May 11, 2004

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## Organization and Performance Overview

# CLIENT OBJECTIVE

## **State of Wisconsin**

As of March 31, 2004

### **Objective**

- Capture the returns of non-U.S. equity markets in a broadly diversified manner
- Achieve superior performance relative to recognized international indices and manager peer group

### **Mandate**

- Non-U.S. equity portfolio: International Stock Fund

### **Benchmarks**

- MSCI EAFE Index
- Morningstar Foreign Large Growth Universe

# INVESTMENT PROCESS REVIEW

Relative performance has disappointed, with stylistic factors a significant influence

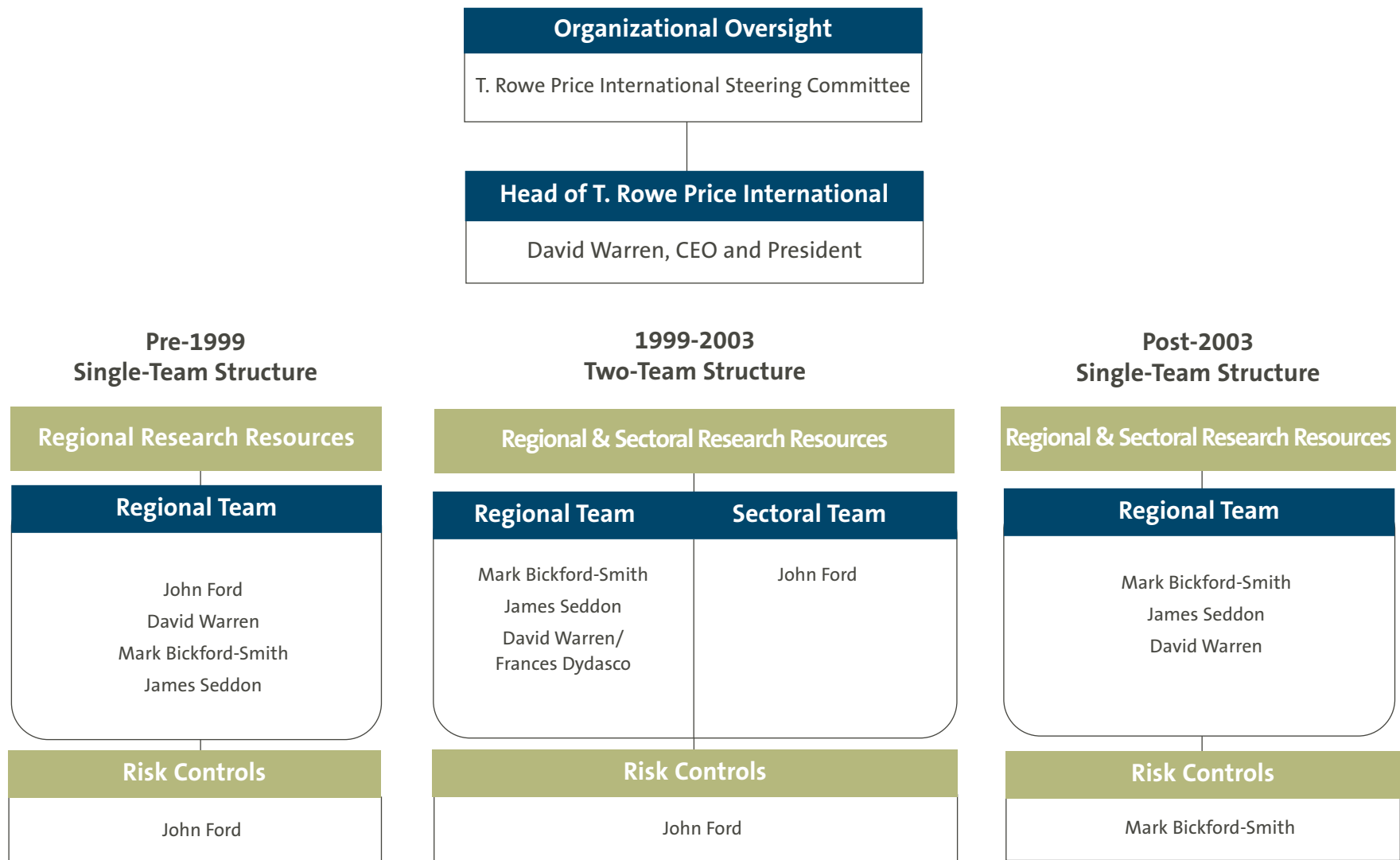
Ongoing review of portfolio construction process

Returned to a single portfolio management team supported by globally integrated research resources

Maintain fundamental, bottom-up emphasis focusing on reasonably priced growth stocks

Reorganized March 1, 2004

# EVOLUTION OF INVESTMENT TEAM STRUCTURE



# TOTAL RETURN PERFORMANCE

## International Stock Fund

Periods Ending December 31, 2003

	Three Months	One Year	Annualized			
			Three Years	Five Years	Seven Years	Ten Years
International Stock Fund (Net of Fees)	14.74%	31.28%	-5.74%	-1.34%	1.57%	3.64%
MSCI EAFE Index <sup>1</sup>	17.11	39.17	-2.57	0.26	3.17	4.78
MSCI EAFE Growth Index <sup>1</sup>	15.70	32.49	-5.51	-3.72	0.52	2.32
Morningstar Foreign Large Growth Universe	14.95	33.15	-6.69	-0.87	N/A	2.49
Morningstar Percentile	55%	55%	35%	56%	N/A	43%

<sup>1</sup> Shown with gross dividends reinvested.

# TOTAL RETURN PERFORMANCE

## International Stock Fund

Periods Ending December 31, 2003

	Three Months	One Year	Annualized		
			Three Years	Four Years	Since Inception 5/31/99
International Stock Fund Regional Portfolio (Gross of Fees)	14.78%	32.51%	-4.23%	-6.72%	0.08%
International Stock Fund Sector Portfolio (Gross of Fees)	15.25	32.59	-5.63	-9.00	-1.59
MSCI EAFE Index <sup>1</sup>	17.11	39.17	-2.57	-5.55	0.24
MSCI EAFE Growth Index <sup>1</sup>	15.70	32.49	-5.51	-10.63	-3.04
Morningstar Foreign Large Growth Universe	14.95	33.15	-6.69	N/A	N/A

<sup>1</sup> Shown with gross dividends reinvested.



# TOTAL RETURN PERFORMANCE

## International Stock Fund

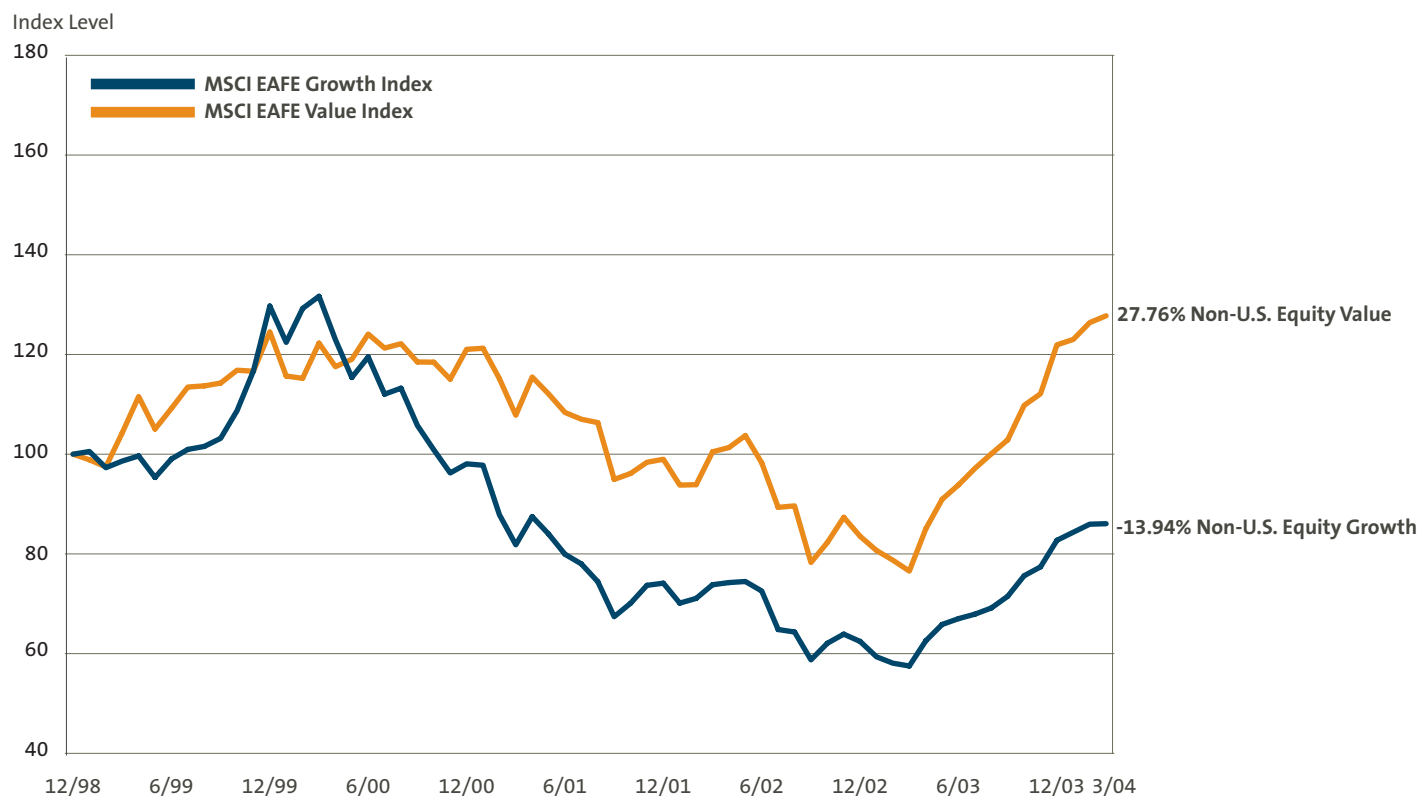
Periods Ending March 31, 2004

	Three Months	One Year	Annualized			
			Three Years	Five Years	Seven Years	Ten Years
International Stock Fund (Net of Fees)	3.74%	51.55%	0.93%	-0.86%	2.10%	4.27%
MSCI EAFE Index <sup>1</sup>	4.40	58.15	3.80	0.83	4.03	4.86
MSCI EAFE Growth Index <sup>1</sup>	4.02	49.62	1.69	-2.69	1.38	2.57
Morningstar Foreign Large Growth Universe	4.55	51.28	0.30	-0.59	N/A	3.36
Morningstar Percentile	63%	46%	41%	56%	N/A	39%

<sup>1</sup> Shown with gross dividends reinvested.

# GROWTH/VALUE PERFORMANCE

December 31, 1998 through March 31, 2004



Source: Factset. Indices shown with no dividends. Returns in U.S. dollars unless otherwise noted.

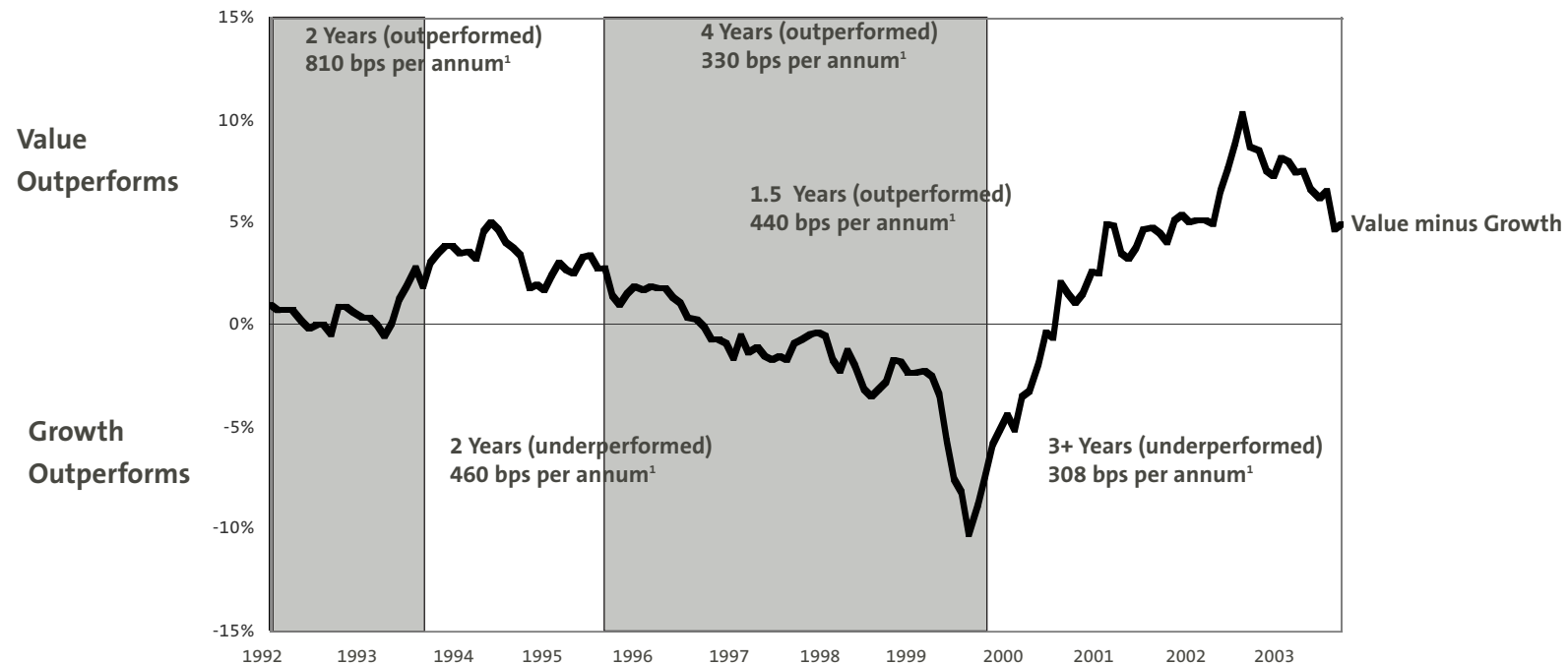
Note: MSCI EAFE Growth and Value Indices are used as representative indices.

Growth continues to underperform value.

# GROWTH VS. VALUE & OUR RELATIVE PERFORMANCE

## S&P/Citigroup PMI EPAC Style Indices Value Minus Growth Rolling Three-Year Returns

Based on Quarterly Performance



<sup>1</sup> Performance of Institutional Foreign Equity Fund relative to MSCI EAFE Index. For the period 6/30/00 through 3/31/04. For the period 6/30/92 through 3/31/04, the annualized return for Institutional Foreign Equity Fund is 6.11% and for the MSCI EAFE Index, it is 6.79%.

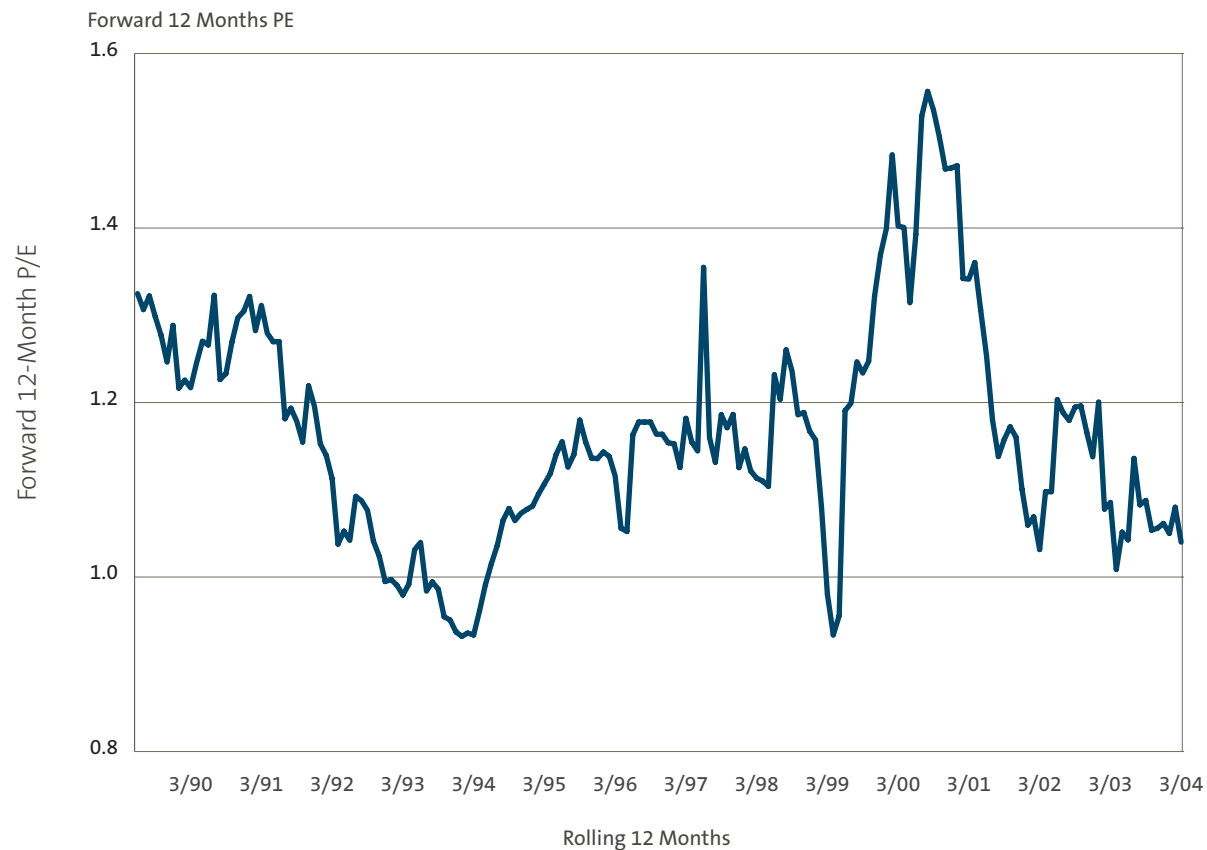
Source: T. Rowe Price International, Inc.

Style differences expected to moderate; becoming a stock picker's environment.

# NON-U.S. VALUATIONS

## International Growth<sup>1</sup> vs. Value Relative Price-to-Forward 12-Month Earnings

June 30, 1989 through March 31, 2004



<sup>1</sup> Based on S&P/Citigroup PMI World ex-U.S. Growth and Value Indices.

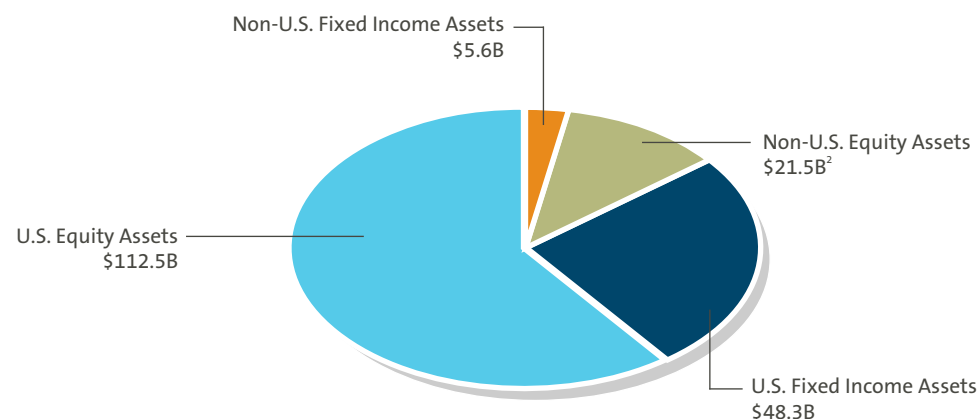
Source: S&P/Citigroup.

## Overview

# T. ROWE PRICE INTERNATIONAL ASSETS UNDER MANAGEMENT

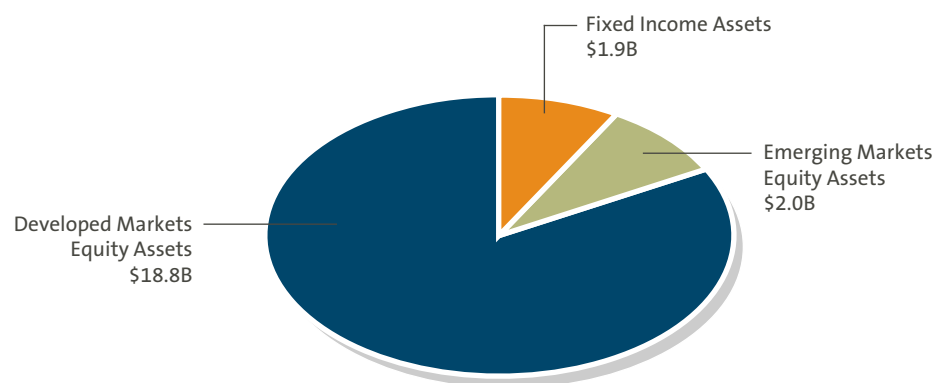
## Total T. Rowe Price Assets: \$190.0 Billion<sup>1</sup>

As of December 31, 2003



## Total T. Rowe Price International Assets: \$22.7 Billion

As of December 31, 2003



<sup>1</sup> The combined assets of the T. Rowe Price group of companies. The T. Rowe Price group of companies includes T. Rowe Price Associates, Inc., T. Rowe Price International, Inc., T. Rowe Price Global Investment Services Limited, T. Rowe Price Global Asset Management Limited, and T. Rowe Price Stable Asset Management, Inc.

<sup>2</sup> Includes both non-U.S. and global assets.

# ORGANIZATION

## **T. Rowe Price International, Inc.**

As of December 31, 2003

**More than 20 years of experience managing international portfolios**

**48 investment professionals in seven offices worldwide**

**Offices in London, Hong Kong, Tokyo, Singapore, Buenos Aires, Paris, and Baltimore**

**Over \$22 billion in assets under management**

# INVESTMENT APPROACH

**Portfolio management team with regional responsibilities**

**Emphasis on companies with superior growth prospects trading at reasonable valuations**

**Full range of international equity markets, developed and emerging markets, large- to medium-sized companies**

**Country and sector weightings developed through consideration of:**

- Attractiveness of individual buying opportunities
- Macroeconomic environment

**Stock selection is the point of decision-making**



# NON-U.S. EQUITY PORTFOLIO MANAGEMENT TEAM

As of March 31, 2004

**Mark Bickford-Smith, Lead Portfolio Manager (London)**

- Responsibility: Emerging Markets/  
Developed Pacific ex-Japan Equities;
- 19 years of investment experience;
- 8 years with T. Rowe Price International.  
MA, Cambridge University

**David Warren, Chief Executive Officer and President (London)**

- Responsibility: Japanese Equities;
- 24 years of investment experience;
- 20 years with T. Rowe Price International.  
Honours Degree, Oxford University

**James Seddon (London)**

- Responsibility: European Equities;
- 17 years of investment experience;
- 16 years with T. Rowe Price International.  
Honours Degree, Oxford University

The team averages 20 years of investment experience and 15 years with T. Rowe Price International.

# REGIONAL EQUITY RESEARCH RESOURCES

As of March 31, 2004

	Core Growth Non-U.S. Equity Portfolio Management Team	Regional Specialist Portfolio Management Team	Regional Analysts
Japan	<b>David Warren</b> Japan Generalist	<b>Campbell Gunn</b> Japan Generalist	<b>Miki Takeyama</b> Japan Small-Cap
Pacific ex-Japan	<b>Mark Bickford-Smith</b> Asia ex-Japan Generalist	<b>Frances Dydasco</b> South Asia ex-Japan <b>Mark Edwards</b> North Asia ex-Japan	<b>May Foo</b> South Asia ex-Japan
Europe	<b>James Seddon</b> Europe Generalist	<b>Chris Alderson</b> Eastern Europe/Middle East/Africa <b>Robert Revel-Chion, CFA</b> Europe Generalist <b>Justin Thomson</b> Europe Small-Cap	<b>Philip Rodriqs</b> Europe Small-Cap <b>Leigh Robertson, CFA</b> Emerging Europe/Middle East/Africa <b>Ulle Adamson</b> Emerging Europe/Middle East/Africa
Latin America	<b>Mark Bickford-Smith</b> Latin America Generalist	<b>Gonzalo Pángaro</b> Latin America Generalist	<b>José Costa Buck</b> Latin America Generalist <b>Verena Wachnitz</b> Latin America Generalist

# REGIONAL EQUITY RESEARCH RESOURCES

As of March 31, 2004

**17 regional equity research professionals worldwide**

**Fundamental approach to research — pursue unconventional sources of information**

**Regional research — essential to analyze local market influences such as:**

- Politics
- Economics
- Investor Behavior
- Regulations

# SECTOR EQUITY RESEARCH ANALYSTS<sup>1</sup>

As of March 31, 2004

**Bill Stromberg, CFA;** Director of Global Equity Research, T. Rowe Price Associates

**Charles G. Pepin;** Associate Director of U.S. Equity Research, T. Rowe Price Associates

**Jill Hauser;** Associate Director of U.S. Equity Research, T. Rowe Price Associates

**Gonzalo Pángaro, CFA;** Director of Non-U.S. Equity Research, T. Rowe Price International

<b>Technology</b>	<b>Kennard W. Allen</b> Small-Cap Software <b>Donald J. Easley, CFA</b> Hardware, Storage & EMS	<b>Anh Lu</b> Asia & Japan Generalist <b>Jeff Rottinghaus, CPA</b> Semiconductors & Equipment, Large-Cap Software	<b>Wenhua Zhang, CFA, CPA</b> Small-/Mid-Cap Generalist <b>Christy Wu</b> Asia Generalist	
<b>Health Care</b>	<b>Laurie M. Bertner</b> Services, Distribution & Medical Products <b>Kris H. Jenner, MD, D. Phil<sup>2</sup></b> Pharmaceuticals & Biotech	<b>Jay S. Markowitz, MD</b> Biotech <b>Charles G. Pepin</b> Managed Care	<b>John C. A. Sherman</b> Non-U.S. Pharmaceuticals	
<b>Media/ Telecom</b>	<b>P. Robert Bartolo, CPA</b> Telecom Services <b>Kara M. Cheseby, CFA</b> Printing, Publishing, Newspapers & Education	<b>David J. Eiswert</b> Telecom Equipment <b>Henry M. Ellenbogen</b> Advertising & Diversified Media Radio/TV, Cable	<b>Robert N. Gensler<sup>2</sup></b> Telecom Global Coordinator	<b>Dale West, CFA</b> Non-U.S. Telecom
			<b>Pascal Hautcoeur</b> Non-U.S. Media	<b>Ernest C. Yeung</b> Non-U.S. Telecom
<b>Financial Services</b>	<b>Jeff Arricale, CPA</b> Multiline & Life Insurance, Asset Managers, Investment Banks <b>Kyle Cerminara, CFA</b> Trust Banks, GSE's, Consumer Finance	<b>Michael W. Holton</b> Large Banks & Diversified Finance <b>David M. Lee, CFA<sup>2</sup></b> Real Estate	<b>J. David Wagner, CFA</b> Small-/Mid-Cap Diversified, P&C Insurance, Thrifts & Mortgage Insurance	<b>Federico Santilli, CFA</b> European Banks
<b>Business Services</b>	<b>R. Scott Berg</b> Processors & Outsourcing	<b>Brace C. Brooks, CFA</b> Generalist & Payroll Processors	<b>Pascal Hautcoeur</b> Non-U.S. Business Services	<b>Philip W. Ruedi, CFA</b> Staffing, IT Consulting, and Logistics
<b>Consumer/ Retail</b>	<b>Frank Alonso</b> Leisure, Soft Goods, Restaurants <b>Christopher A. Berrier</b> Leisure	<b>Arthur B. Cecil, III, CFA</b> Food/Beverage/Personal Care <b>Frédéric Denjoy</b> Non-U.S. Consumer & Retail	<b>Joseph Fath, CPA</b> Gaming & Lodging, Real Estate <b>Philip W. Ruedi, CFA</b> Supermarkets & Drug Stores	<b>R. Candler Young</b> Retail-Discount Goods & Hard Goods
<b>Industrial</b>	<b>Timothy F. Bei</b> Aerospace/Defense <b>Christopher A. Berrier</b> Housing <b>Joseph Fath, CPA</b> Airlines	<b>David R. Giroux, CFA</b> Building Materials/Products, Electrical Equipment, Industrial Manufacturing/Automotive <b>Lewis M. Johnson</b> Global Metals & Mining, Agriculture, Chemicals <b>David M. Lee, CFA<sup>2</sup></b> Railroads	<b>Heather K. McPherson, CPA</b> Utilities-Electric & Power Generation, Paper <b>Charles M. Ober, CFA<sup>2</sup></b> Global Energy Majors <b>Curt J. Organt</b> Small-/Mid-Cap Generalist	<b>Timothy E. Parker</b> Energy Service & Producers, Exploration & Production <b>Richard E. Presley, CFA</b> European Generalist <b>Philip W. Ruedi, CFA</b> Environmental Services

<sup>1</sup> Includes affiliates of T. Rowe Price Associates, Inc.

<sup>2</sup> Also has portfolio management responsibilities.

Analysts boxed in blue are T. Rowe Price International resources.

42 Equity Research Analysts and 13 Associate Equity Research Analysts worldwide.

# SECTOR EQUITY RESEARCH ANALYSTS

As of December 31, 2003

**59 sector research professionals worldwide<sup>1</sup>**

**Fundamental approach to research — pursue unconventional sources of information**

**Sector research — essential to analyze companies that increasingly face competitors from across the globe**

**Rigorous evaluation of company ratings and associated impact on portfolio performance**

<sup>1</sup> Includes Equity research professionals, including portfolio managers/analysts with research responsibilities, for T. Rowe Price Associates, Inc., and affiliates.

# NON-U.S. RESEARCH PLANS: 2003 - 2005

As of March 31, 2004

## **Plans to add four analysts**

- Japanese Manufacturing (Tokyo)
  - Austin Powell
- Asia ex-Japan Manufacturing (Hong Kong)
- Asian Financials (Hong Kong)
- European Generalist (London)
  - Richard Presley

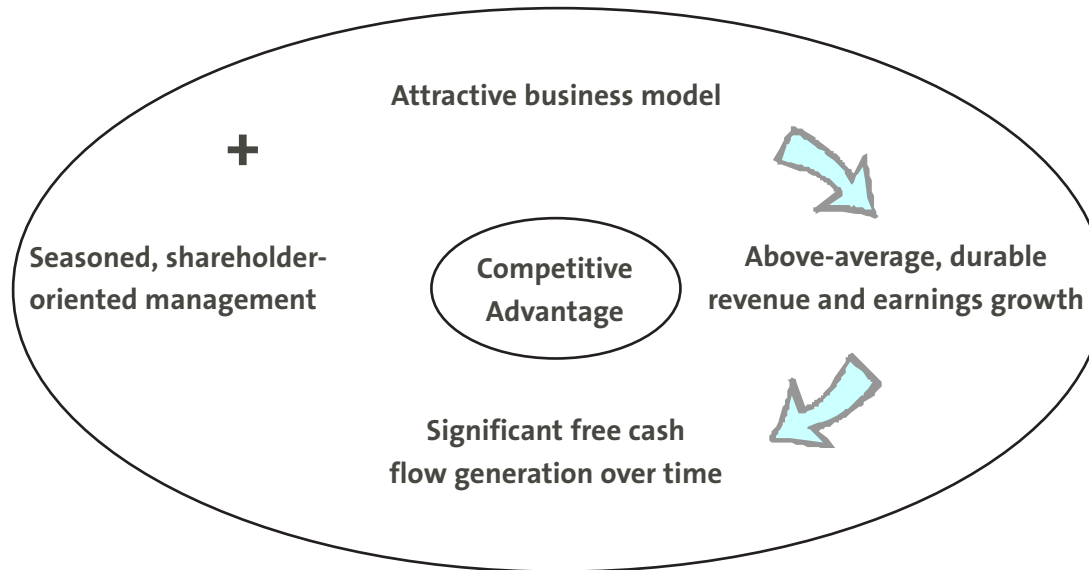
## **Added four associate analysts in 2003**

- Non-U.S. Telecom (London)
  - Ernest Yeung
- Asian Technology (Hong Kong)
  - Christy Wu
- European Small-Cap (London)
  - Philip Rodriqs
- Latin American Generalist (Buenos Aires)
  - Verena Wachnitz

## **2004 Internship Program**

- Christopher Yip
  - INSEAD MBA program (France/Singapore)
  - Project will focus on Asian investment opportunities
- Sebastien Mallet
  - London Business School MBA program
  - Project will focus on European IT services companies

# GROWTH STOCK CHARACTERISTICS

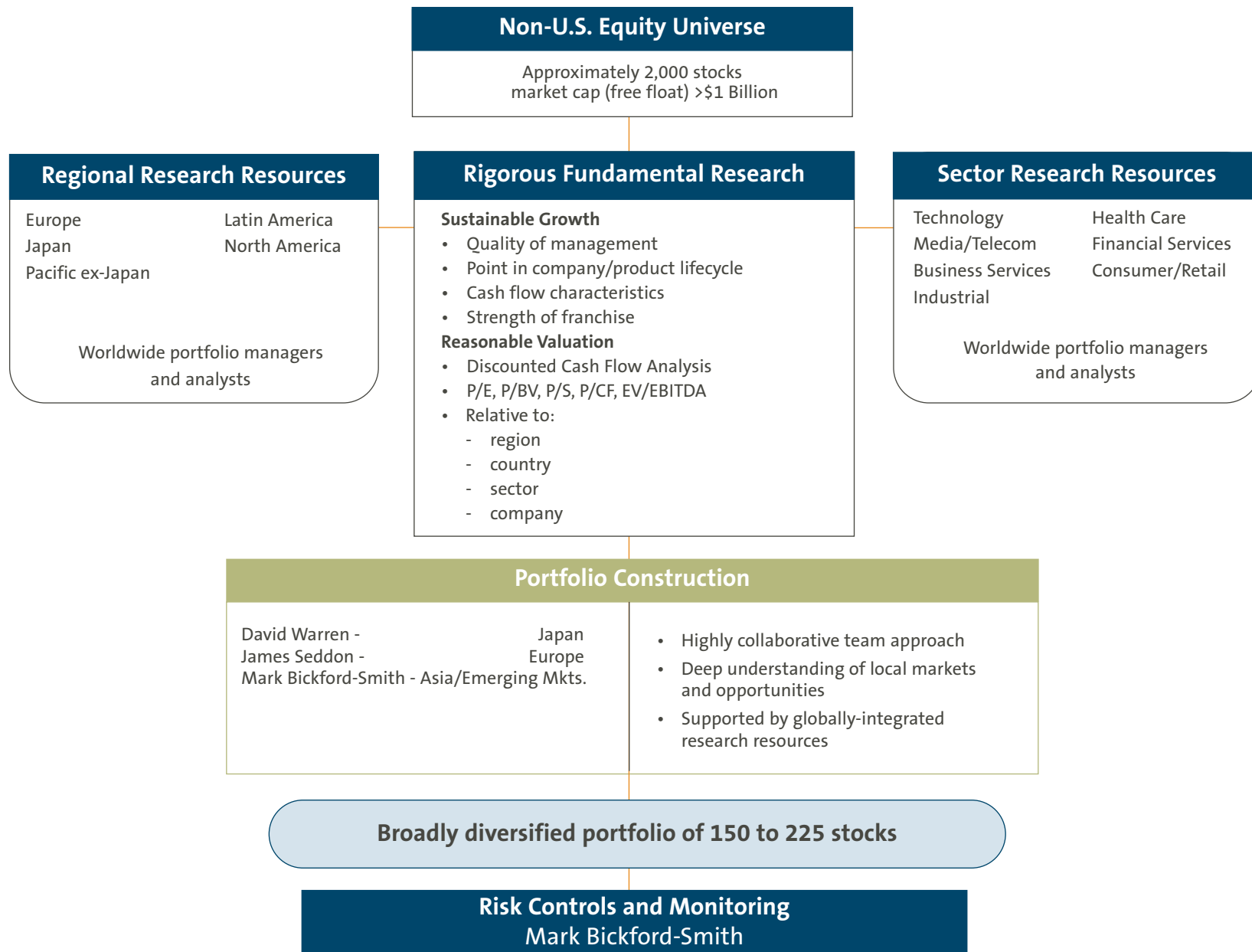


## Growth stocks exhibit:

- Sustainable and superior cash flow growth relative to the overall market
- An ability to reinvest future cash flows at rates of return above cost of capital
- Rates of return on capital greater than weighted average cost of capital
- A stock price valuation that underestimates the company's long-term growth prospects

Growth stocks are often mispriced as the market fails to properly assess a company's ability to create value over an extended period of time.

# INVESTMENT PROCESS





# RISK CONTROLS & MONITORING

**Daily transaction and portfolio reports allow Mark Bickford-Smith and team members to monitor the portfolio**

**Mark Bickford-Smith leads weekly review of portfolio composition and risk profile**

- Performance review
- Country, industry, currency exposure
- Stock weights and investment thesis

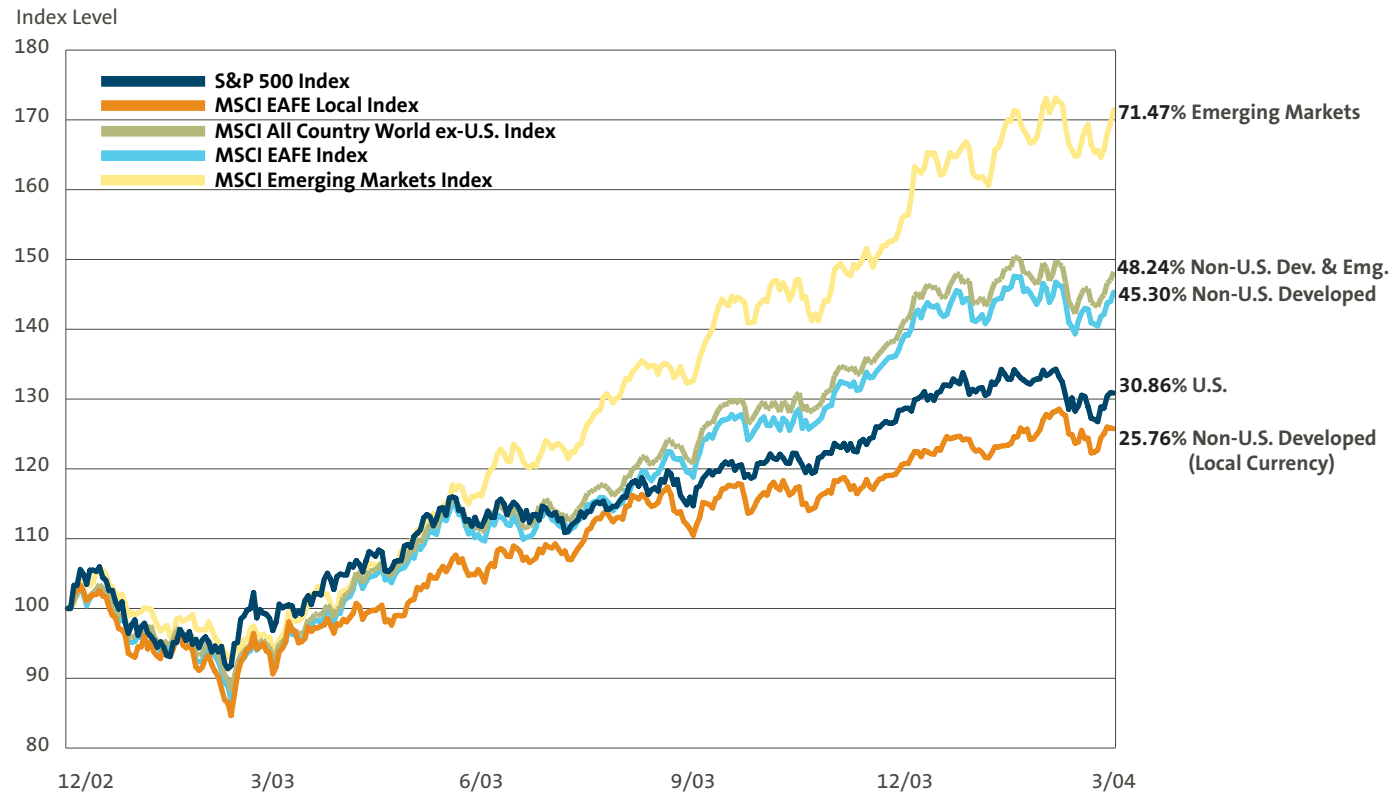
**Detailed performance analytics**

- Wilshire attribution statements (review of performance attribution)
- Proprietary and Barra analytics (analysis of risk characteristics)
- Plexus (monitor trading costs)

## Performance Review

# GLOBAL MARKET PERFORMANCE

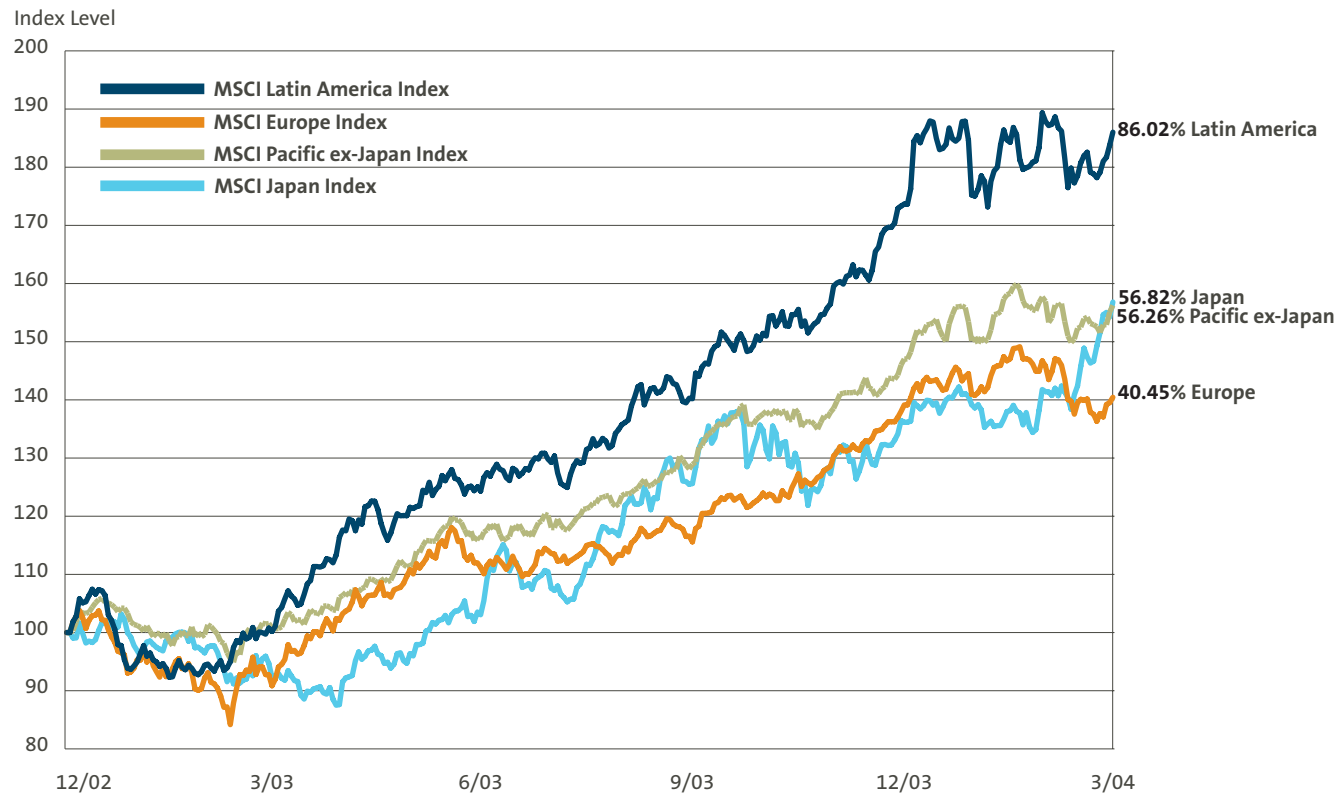
December 31, 2002 through March 31, 2004



Source: Factset. Indices shown with no dividends. Returns in U.S. dollars unless otherwise noted.  
Past performance is not a guarantee of future results.

# REGIONAL MARKET PERFORMANCE

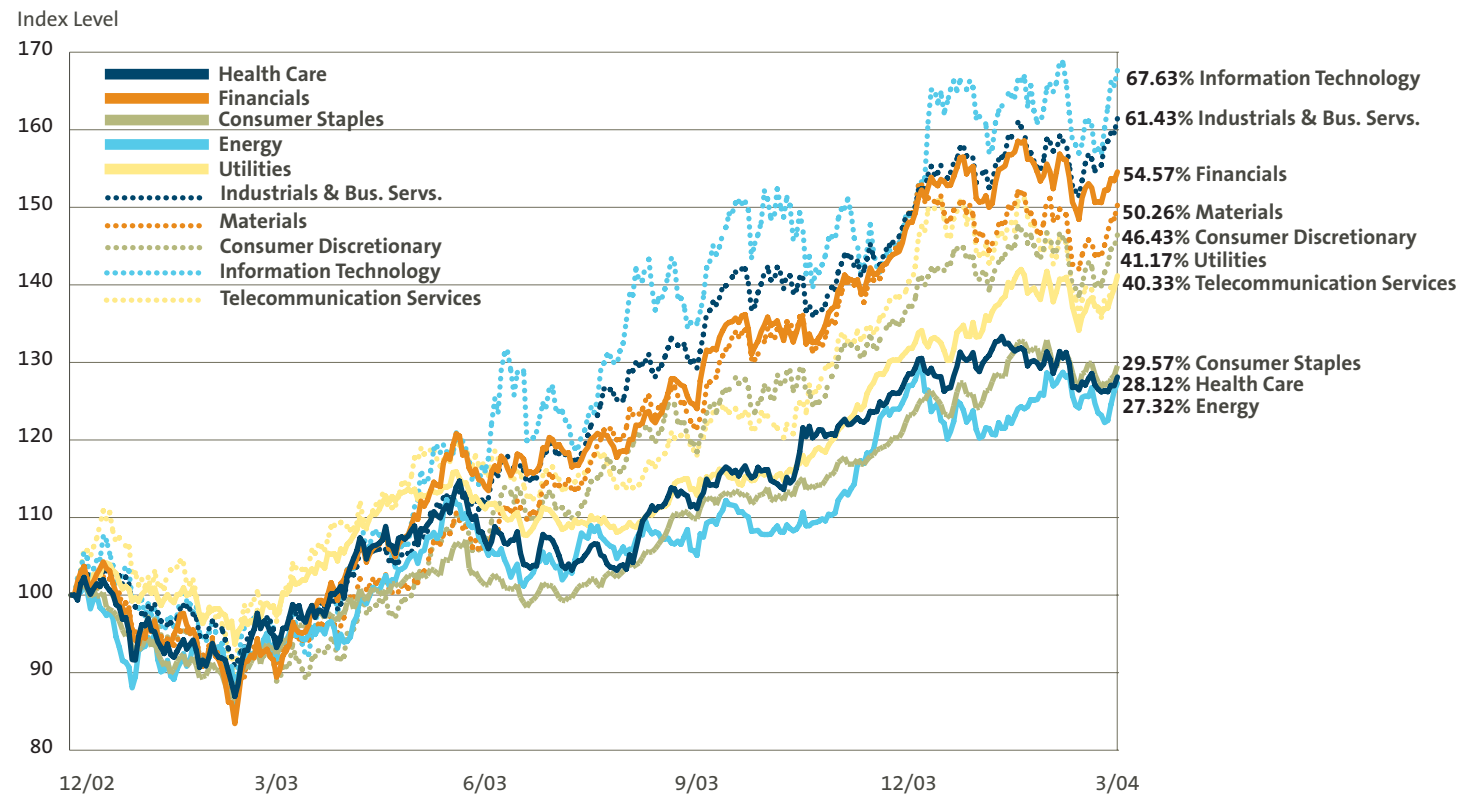
December 31, 2002 through March 31, 2004



Source: Factset. Indices shown with no dividends. Returns in U.S. dollars unless otherwise noted.  
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# SECTOR PERFORMANCE

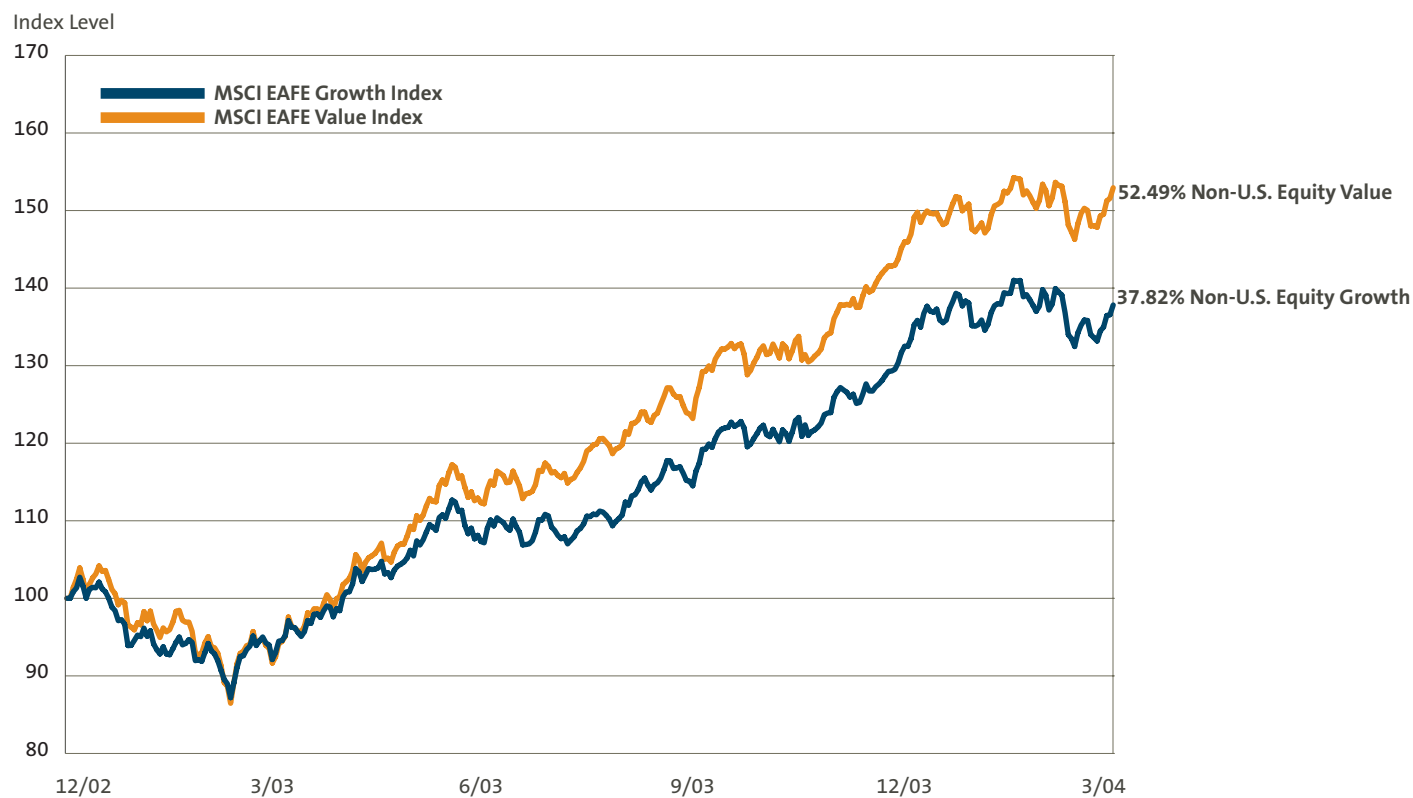
December 31, 2002 through March 31, 2004



Source: Factset, returns based on MSCI indices. Indices shown with no dividends. Returns in U.S. dollars unless otherwise noted.  
Past performance is not a guarantee of future results.

# GROWTH/VALUE PERFORMANCE

December 31, 2002 through March 31, 2004



Source: Factset. Indices shown with no dividends. Returns in U.S. dollars unless otherwise noted.

Note: MSCI EAFE Growth and Value Indices are used as representative indices.

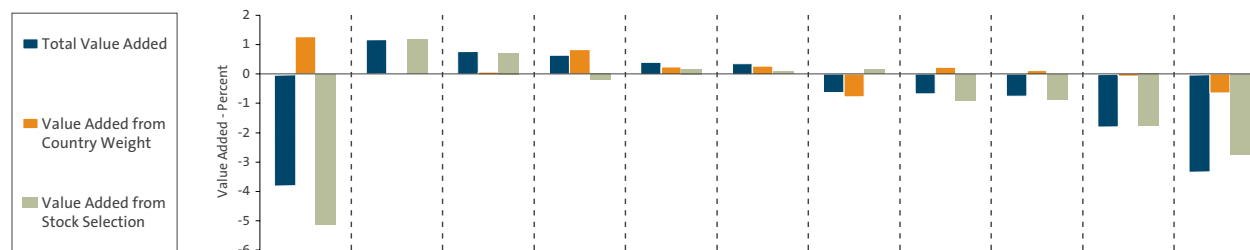
Past performance is not a guarantee of future results.

# ATTRIBUTION ANALYSIS — MAJOR IMPACTS

## International Stock Fund vs. MSCI EAFE Index

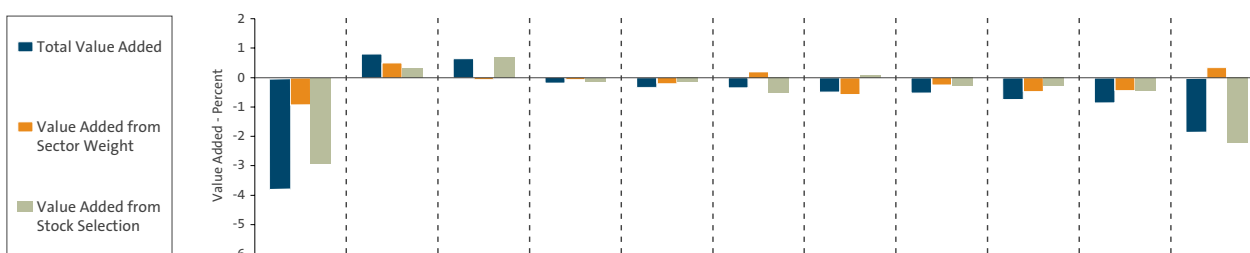
One Year Ending March 31, 2004

### By Country



	Total	Netherlands	Switzerland	South Korea	Mexico	Turkey	Germany	Sweden	France	United Kingdom	Japan
Over (Under) Weight	--	-0.3	-0.2	2.4	1.6	0.2	-4.3	0.7	4.8	-1.4	-2.4
Portfolio Weight (Ending)	100.0	4.4	6.9	2.4	1.6	0.2	2.4	3.0	14.3	23.6	21.2
Index Weight (Ending)	100.0	4.8	7.1	0.0	0.0	0.0	6.7	2.3	9.5	25.0	23.6
Portfolio Performance	54.2	72.5	60.3	88.0	77.7	125.6	88.2	54.7	53.2	40.7	53.9
Index Performance	58.0	47.4	49.1	95.4	69.1	99.5	80.0	85.9	58.6	47.1	69.8

### By Sector



	Total	Utilities	Energy	Consumer Staples	Industrials & Bus. Servs.	Information Technology	Financials	Materials	Telecom Services	Health Care	Consumer Discretionary
Over (Under) Weight	--	-3.2	-0.9	0.4	-0.7	2.3	-2.5	-2.8	2.1	0.6	4.7
Portfolio Weight (Ending)	100.0	1.5	7.0	8.9	8.6	9.7	24.2	3.9	9.5	9.1	17.7
Index Weight (Ending)	100.0	4.8	7.8	8.5	9.3	7.4	26.7	6.6	7.4	8.5	13.0
Portfolio Performance	54.2	64.6	45.7	39.0	69.8	74.2	72.9	55.6	42.7	33.4	51.9
Index Performance	58.0	44.7	38.8	40.2	71.6	81.7	72.6	64.5	45.1	37.5	64.3

Note: Performance calculated by Wilshire Atlas may not match TRPI's reported portfolio performance because Wilshire uses different pricing and exchange rate sources, includes only common stocks, and does not capture fees, commissions, or intra-day trading. Returns in U.S. dollars.

# TOTAL RETURN PERFORMANCE

## Calendar Years

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
International Stock Fund (Net of Fees)	-0.76%	11.39%	15.99%	2.70%	16.14%	34.60%	-17.09%	-22.02%	-18.18%	31.28%
MSCI EAFE Index <sup>1</sup>	8.06	11.55	6.36	2.06	20.33	27.30	-13.96	-21.21	-15.66	39.17
Value Added	-8.82	-0.16	9.63	0.64	-4.19	7.30	-3.13	-0.81	-2.52	-7.89

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
International Stock Fund (Net of Fees)	-0.76%	11.39%	15.99%	2.70%	16.14%	34.60%	-17.09%	-22.02%	-18.18%	31.28%
MSCI EAFE Growth Index <sup>1</sup>	4.75	11.65	3.70	2.33	22.47	29.71	-24.40	-24.41	-15.76	32.49
Value Added	-5.51	-0.26	12.29	0.37	-6.33	4.89	7.31	2.39	-2.42	-1.21

<sup>1</sup> Shown with gross dividends reinvested.



# REVIEW OF RECENT PERFORMANCE

As of March 31, 2004

## Growth at a Reasonable Price Approach

- Markets have favored extremes

1999  
Momentum Growth

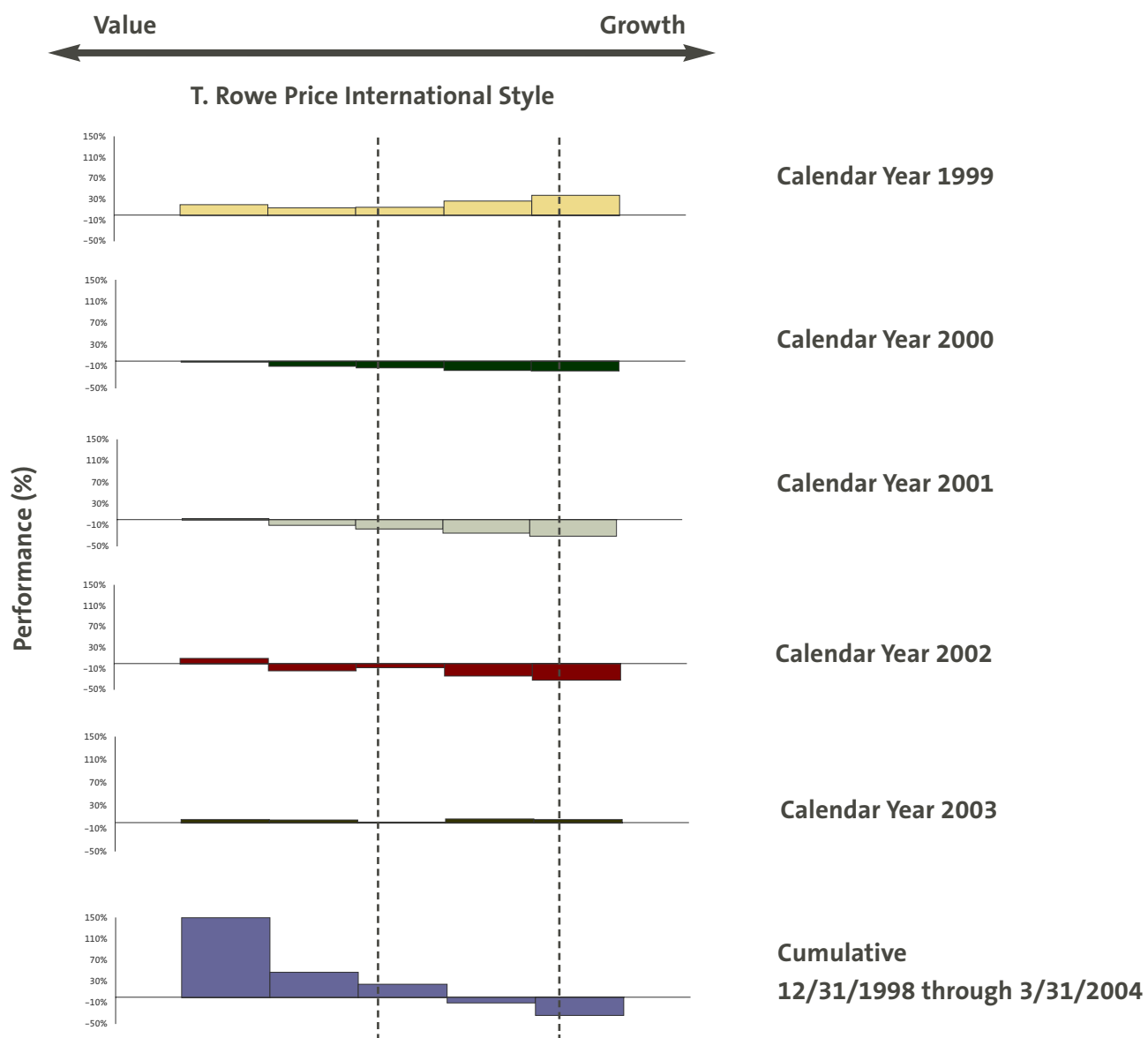


2000-2002  
Deep Value

- 2003
- Style gap remained

Our style has been out of favor.

## MARKET PERFORMANCE BY QUINTILES OF GROWTH/VALUE

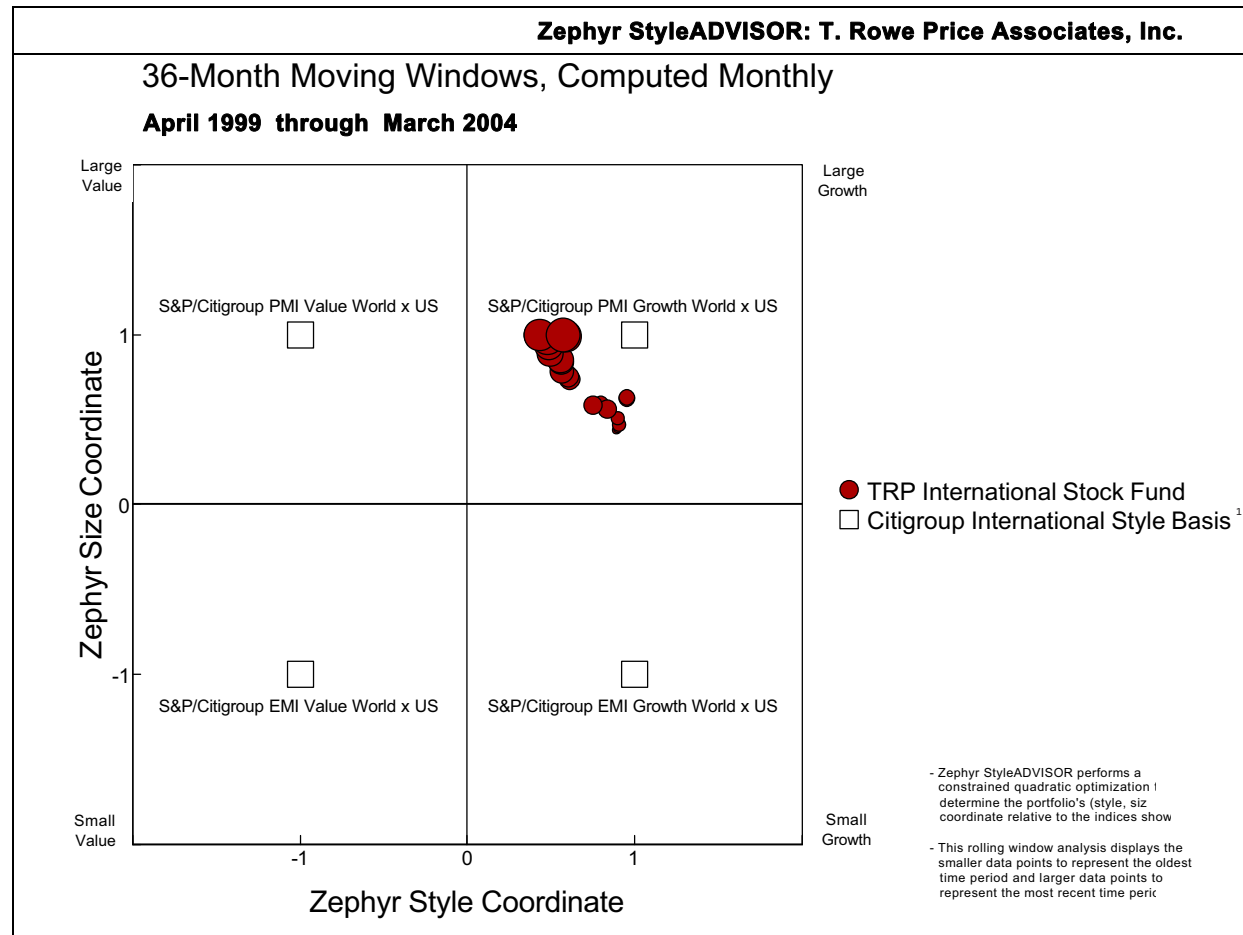


Source: Based on Barra analysis of MSCI EAFE, which determines growth/value based on a combination of forecast price-to-earnings, reported price-to-earnings, reported price-to-book value, and dividend yield.

## Reasonably priced growth has underperformed.

# STYLE CONSISTENCY

## Zephyr StyleADVISOR: T. Rowe Price Associates, Inc.



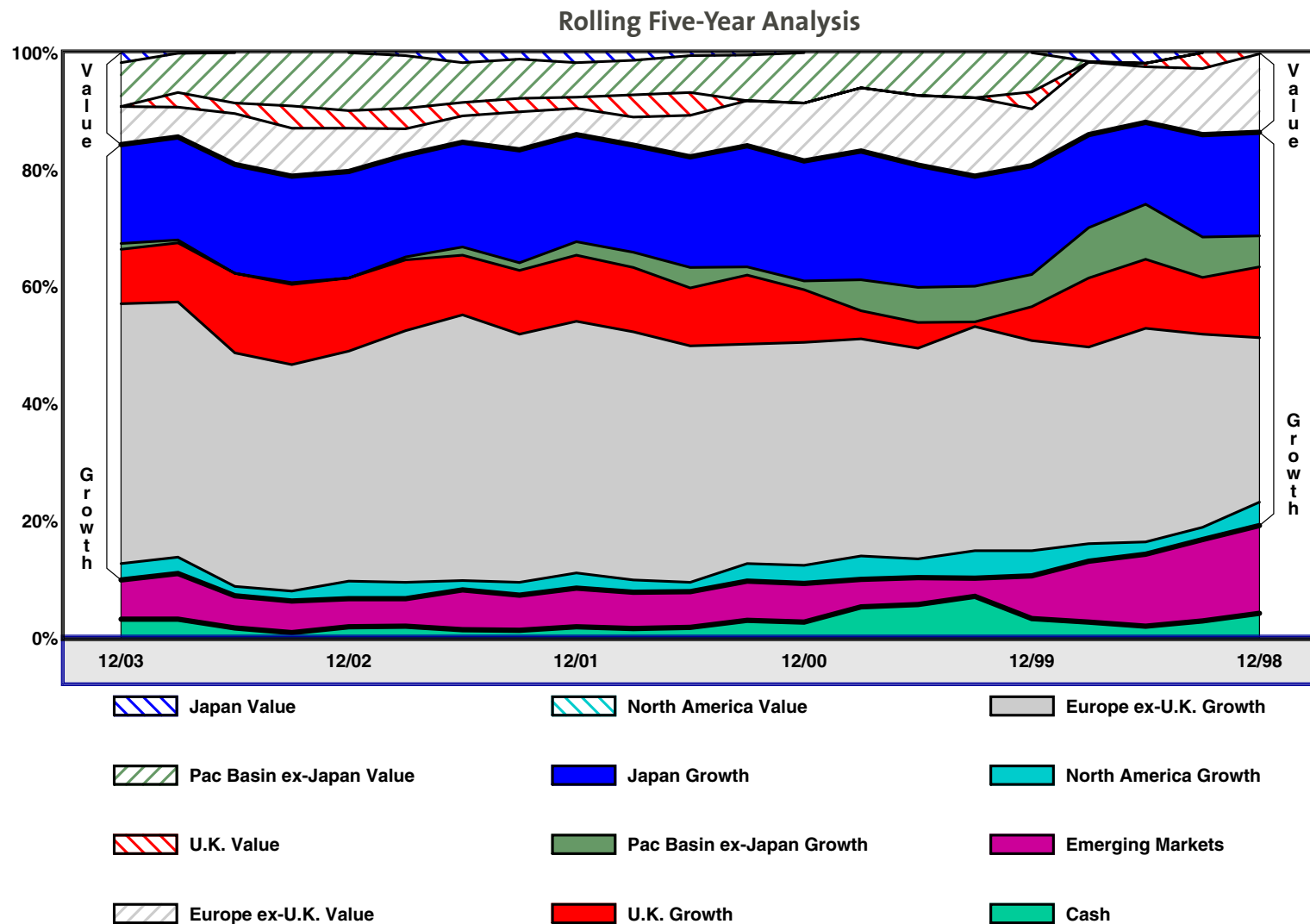
<sup>1</sup> Style Basis Indices are: Citigroup Primary Market Index (PMI) and Extended Market Index (EMI) Growth and Value Indices.  
T. Rowe Price, Inc., and Zephyr Associates, Inc., are not affiliated companies.

Overall portfolio emphasizes growth.

# COMPOSITION OF STYLE

## Non-U.S. Equity Strategy

Five Years Ending December 31, 2003



# POSITIONED FOR THE NEXT CYCLE

As of March 31, 2004

## **Growth versus Value**

- Valuations have contracted to where growth and value stocks are similarly valued
- Style to remain a factor, but less dominant than the past four years

## **Europe versus Japan**

- Europe's economic prospects are mixed, but as a whole, better than Japan
- Company-by-company comparisons tend to favor European opportunities

## **Sector Positioning**

- Long-term prospects for growth-oriented industries such as business services, semiconductors, wireless telecoms, and pharmaceuticals remain intact
- Valuation trade-off between sectors is less distinct today, should favor companies that can generate sustainable and superior earnings growth

## **Developed versus Emerging**

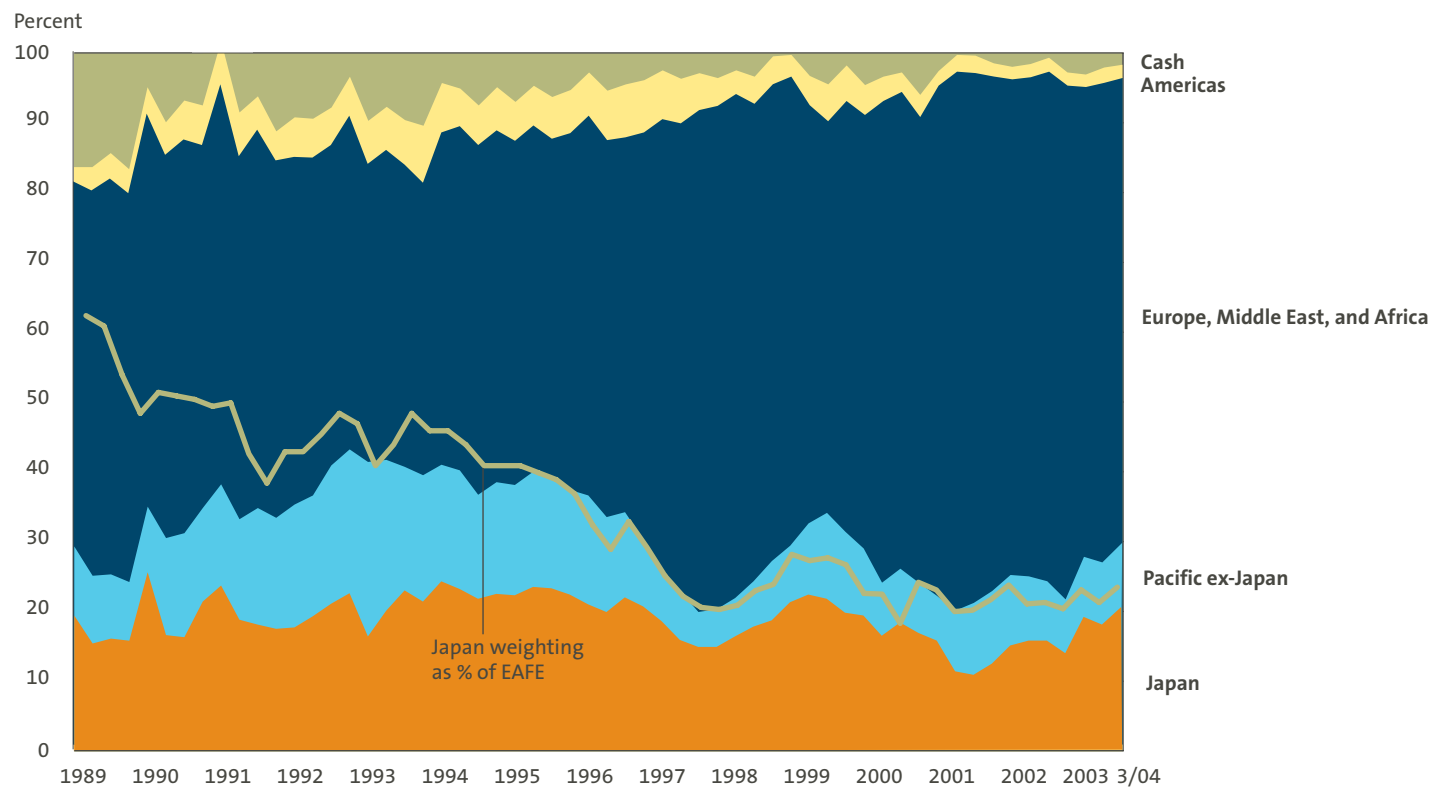
- Emerging market economies, particularly in Asia and Russia, have undergone significant reforms
- Valuations in most emerging market sectors remain attractive relative to developed market peers

## Current Portfolio Structure

# HISTORICAL REGIONAL COMPOSITION

## International Stock Fund

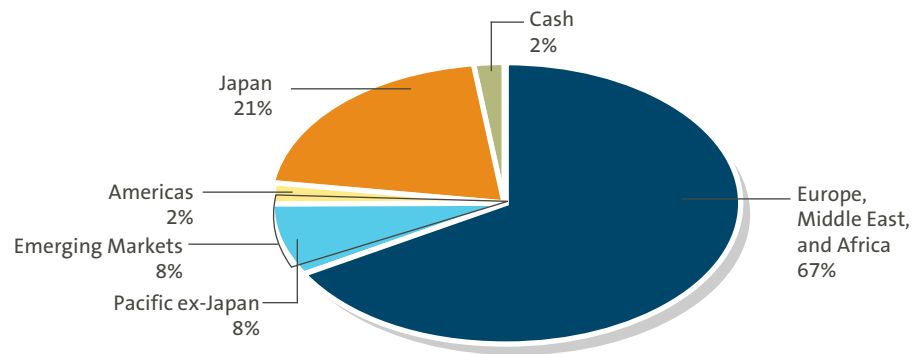
As of March 31, 2004



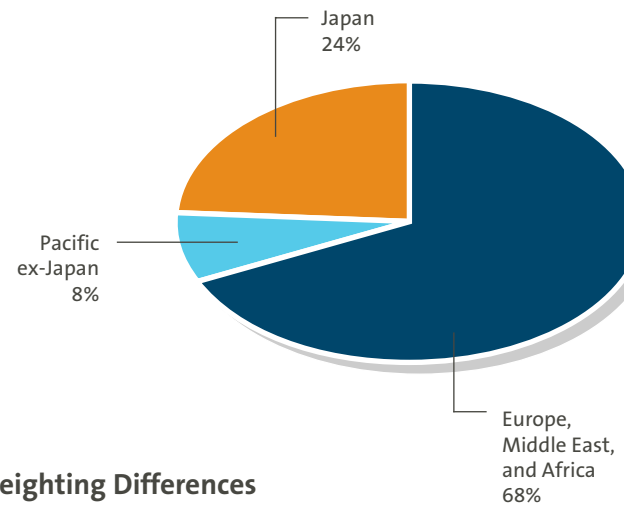
# REGIONAL COMPOSITION

As of March 31, 2004

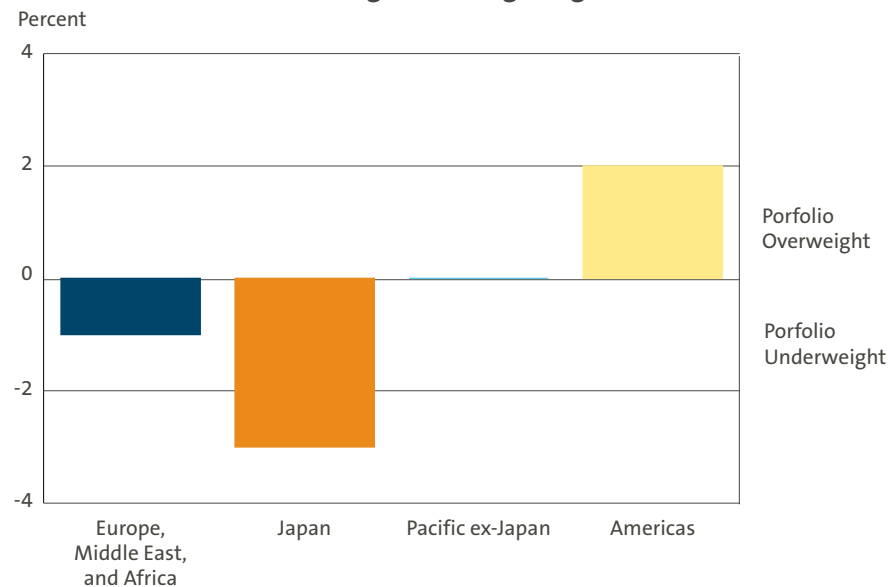
**International Stock Fund**



**MSCI EAFE Index**



**Portfolio vs. Index: Regional Weighting Differences**





# GEOGRAPHICAL DIVERSIFICATION

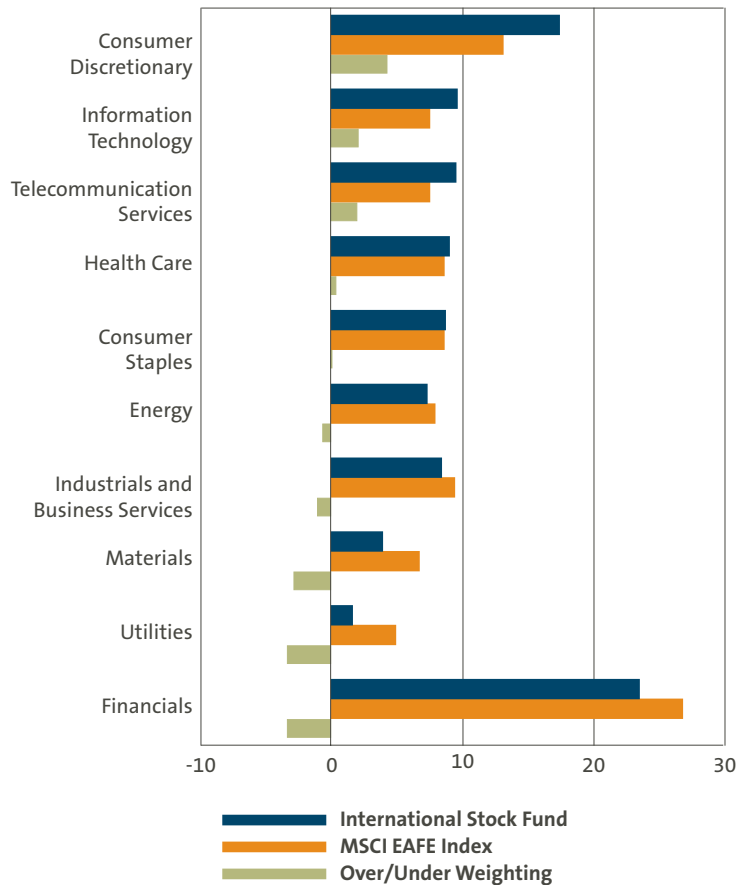
As of March 31, 2004

	International Stock Fund	MSCI EAFE Index	Over/Under-Weighting vs. Index
<b>Europe, Middle East, and Africa</b>	<b>66.6%</b>	<b>68.6%</b>	<b>-2.0</b>
Austria	0.0	0.3	-0.3
Belgium	0.5	1.0	-0.5
France	13.6	9.2	4.4
Germany	2.3	6.7	-4.4
Greece	0.0	0.4	-0.4
Ireland	0.0	0.7	-0.7
Israel	0.2	0.0	0.2
Italy	4.5	3.7	0.8
Kazakhstan	0.2	0.0	0.2
Luxembourg	0.0	0.0	0.0
Netherlands	4.9	5.1	-0.2
Portugal	0.0	0.4	-0.4
Russia	1.1	0.0	1.1
Scandinavia	5.4	5.4	0.0
South Africa	0.0	0.0	0.0
Spain	4.0	3.6	0.4
Switzerland	6.7	7.1	-0.4
Turkey	0.2	0.0	0.2
United Kingdom	23.0	25.0	-2.0
<b>Asia</b>	<b>28.9</b>	<b>31.4</b>	<b>-2.5</b>
Australia	2.0	5.1	-3.1
China	0.3	0.0	0.3
Hong Kong	0.9	1.7	-0.8
India	0.8	0.0	0.8
Japan	20.6	23.6	-3.0
Malaysia	0.2	0.0	0.2
New Zealand	0.0	0.2	-0.2
Singapore	0.9	0.8	0.1
South Korea	2.3	0.0	2.3
Taiwan	0.7	0.0	0.7
Thailand	0.2	0.0	0.2
Total Pacific ex-Japan	8.3	7.8	0.5
<b>Americas</b>	<b>2.4</b>	<b>0.0</b>	<b>2.4</b>
Brazil	0.6	0.0	0.6
Mexico	1.6	0.0	1.6
Canada	0.2	0.0	0.2
Cash	2.1	0.0	2.1
	<b>100.0%</b>	<b>100.0%</b>	<b>0.0</b>

# SECTOR DIVERSIFICATION

## International Stock Fund vs. MSCI EAFE Index

As of March 31, 2004



**Consumer Discretionary:** Overweight media such as WPP Group and TF1; overweight catering such as Compass Group and Sodexho.

**Information Technology:** Overweight semiconductor equipment and products such as Samsung Electronics, TSMC, and ASML.

**Telecom Services:** Overweight wireless telecommunications such as KDDI, SK Telecom, and Vodafone; underweight in diversified telecommunications.

**Health Care:** Overweight pharmaceuticals such as GlaxoSmithKline, Novo Nordisk, and Sanofi.

**Consumer Staples:** Overweight food manufacturer Nestle, and retailers 7-Eleven Japan and Wal-Mart de Mexico. No tobacco stocks.

**Energy:** Underweight BP Amoco; overweight Total Fina Elf, Petrobras, and ENI.

**Industrials and Business Services:** Underweight machinery, road and rail, and construction and engineering; overweight commercial services and supplies, such as Adecco, Secom, and Securitas. No airlines.

**Materials:** Underweight most industry groups, especially chemicals and construction materials.

**Utilities:** Underweight utilities, especially electric utilities.

**Financials:** Underweight insurance and banks. Overweight capital markets such as Nomura, UBS, and Credit Suisse.

The securities mentioned in the above commentary represented 30.2% of the fund's portfolio as of 3/31/04.

# TEN LARGEST HOLDINGS

## International Stock Fund

As of March 31, 2004

	% of Portfolio	Market Capitalization (Millions)	Case for Inclusion
GlaxoSmithKline (U.K.)	3.0%	\$116,983	GlaxoSmithKline is a U.K.-based pharmaceutical company principally involved in the research and development, manufacturing, and marketing of pharmaceutical and consumer health-related products. Patent expiry issues and the lack of a short-term pipeline have weighed on the stock for some time, but the company's early-stage products should sustain long-term growth. In addition, the company boasts strong management and marketing and offers growth at an attractive relative valuation.
Royal Bank of Scotland (U.K.)	2.6	90,089	Royal Bank of Scotland (RBS) is one of Europe's leading financial services groups. RBS is reaping the benefits of restructuring and cost cutting after its acquisition of NatWest. Integration of the businesses is ahead of schedule, and cost savings are better than expected. The company's enduring strengths include its diverse, multi-channel, multi-brand strategy, a wide range of strategic options for future development, and good cash flow.
Vodafone (U.K.)	2.5	161,614	Vodafone Group is the world's largest wireless service provider, with interests in mobile networks throughout Europe, the U.S., and the Far East. We believe it has superior earnings growth and remains undervalued even after the recent price performance. It is better positioned than other telecoms to expand margins through cost saving measures and to fund innovative product development.
Total (France)	2.5	119,010	Total is an integrated oil and gas company with operations in more than 120 countries. Worldwide operations are conducted through three segments: upstream (exploration, development, and production activities), downstream (crude oil and petroleum product sales) and chemicals (petrochemicals and plastics). It has a steady record of reinvestment, boasts access to regions that the other majors do not, and maintains a connection to West Africa and its potential growth opportunities. The upstream business is the focus of reinvestment, and we continue to hold a large position because of its growth potential relative to its peers.
Nestle (Switzerland)	2.0	102,850	Nestle is the world's largest food manufacturer, with products available in nearly every country. Nestle's restructuring efforts remain on track following its exit from non-core businesses. Over the last year, Nestle has been negatively impacted by a number of factors, including currency changes. However, we expect that cost cutting will continue to help improve the company's margins and that revenue performance in a number of markets will improve. In addition, Nestle trades at a discount to its peers.
Shell T&T/Royal Dutch (U.K.)	1.7	162,240	The Shell T&T/Royal Dutch group is the world's third largest oil company. The group has been refocusing its upstream exploration and development strategies. We believe that the group will also continue to benefit from cost reductions in its refining and manufacturing activities, as well as from synergies following its recent acquisitions.
UBS (Switzerland)	1.7	87,643	One of the largest investment managers in the world, UBS provides financial services such as mutual funds, asset management, corporate finance, and estate planning. UBS Investment Bank provides securities underwriting, mergers acquisitions advice, fixed-income products, and foreign exchange. The company also provides traditional banking services in its home country of Switzerland. We believe the company will benefit from stronger financial markets and increasing merger and acquisition activity.
BNP Paribas (France)	1.6	55,211	Based in France, BNP Paribas is a global bank with activities in 85 countries. The bank has been reallocating assets to more profitable areas, including domestic retail operations. BNP maintains a strong retail franchise within France, and we see growth opportunities in the company's U.S. operations. We believe the company's valuation is too heavily discounted given its strong management and the promise of a European recovery.
Compass (U.K.)	1.5	14,371	Compass Group is the world's largest foodservice company. Since its inception, the company has remained focused on its core business through strategic acquisitions and the disposal of non-core businesses. Compass remains well positioned due to its premium revenue growth relative to peers, high business retention rate, and continued profit margin expansion.
Adecco (Switzerland)	1.5	10,293	Adecco is the global leader of temporary and permanent staffing services and operates over 5,800 offices globally. The company maintains the number one or two position in 12 of the world's 13 largest staffing markets. We expect that demand for staffing services should increase due to continued improvement in the global economic environment, as well as a result of deregulation in a number of countries. On-going cost cutting measures, especially in its U.S. operations, should also help increase the company's profit margins.
Total	20.6%		

# PORTFOLIO CHARACTERISTICS

As of March 31, 2004

	International Stock Fund	MSCI EAFE Index
Number of Holdings	182	1,004
Number of Markets	29	21
Investment Weighted Median Market Capitalization (Billions)	\$30.0	\$26.1
Price/Earnings Ratio (Forward 12 Months) <sup>1</sup>	16.1X	15.9X
Earnings Growth (Forward 12 Months) <sup>1</sup>	11.5%	11.1%
Price/Book Ratio (Last 12 Months)	2.5X	2.2X
Return on Equity (Forward 12 Months)	15.6%	13.9%
Turnover 2003	25.1%	N/A
Turnover <sup>2</sup>	30.9%	N/A

<sup>1</sup> Forward 12 months fiscal year-end earnings estimates.

<sup>2</sup> Year-to-date annualized as of 3/31/04.

# TOTAL RETURN PERFORMANCE

## Risk/Return Characteristics

Five Years Ending March 31, 2004

	Five Years	
	International Stock Fund	MSCI EAFE Index
Annualized Total Return	0.01%	0.83%
Annualized Standard Deviation	18.41%	16.26%
Historical Tracking Error	4.36%	0.00%
Beta	1.10	1.00
R-Squared	0.95	1.00
Alpha	-0.33%	0.00%
Sharpe Ratio	-0.18	-0.15
Information Ratio	-0.10	0.00

	Five Years	
	International Stock Fund	MSCI EAFE Growth Index
Annualized Total Return	0.01%	-2.69%
Annualized Standard Deviation	18.41%	17.15%
Historical Tracking Error	4.41%	0.00%
Beta	1.04	1.00
R-Squared	0.95	1.00
Alpha	3.19%	0.00%
Sharpe Ratio	-0.18	-0.35
Information Ratio	0.69	0.00

Statistics based on monthly gross returns.

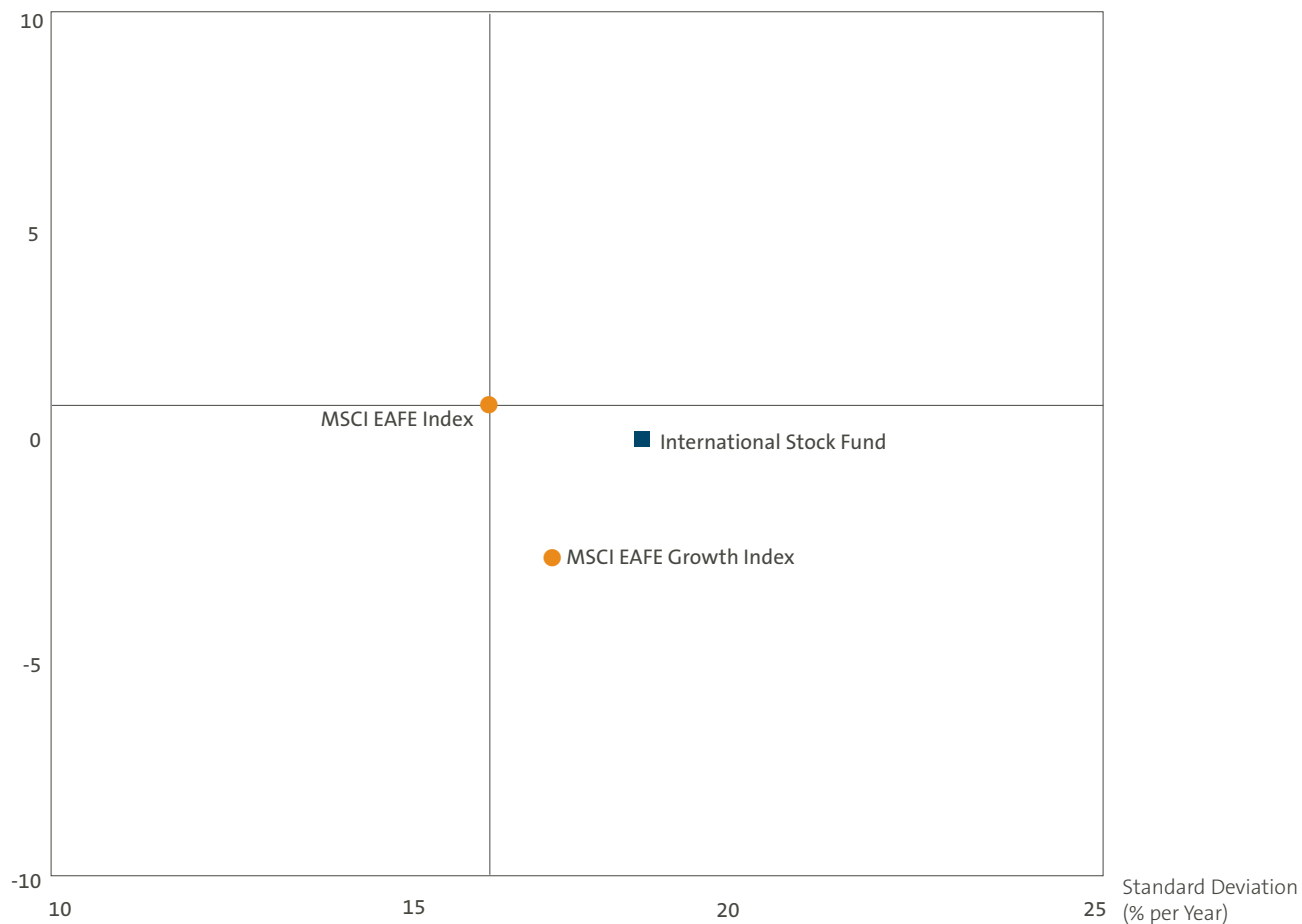
Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets. The fund's share price will fluctuate with changes in market, political, economic, and foreign currency exchange conditions.

# TOTAL RETURN PERFORMANCE

## Risk/Return Characteristics

Five Years Ending March 31, 2004

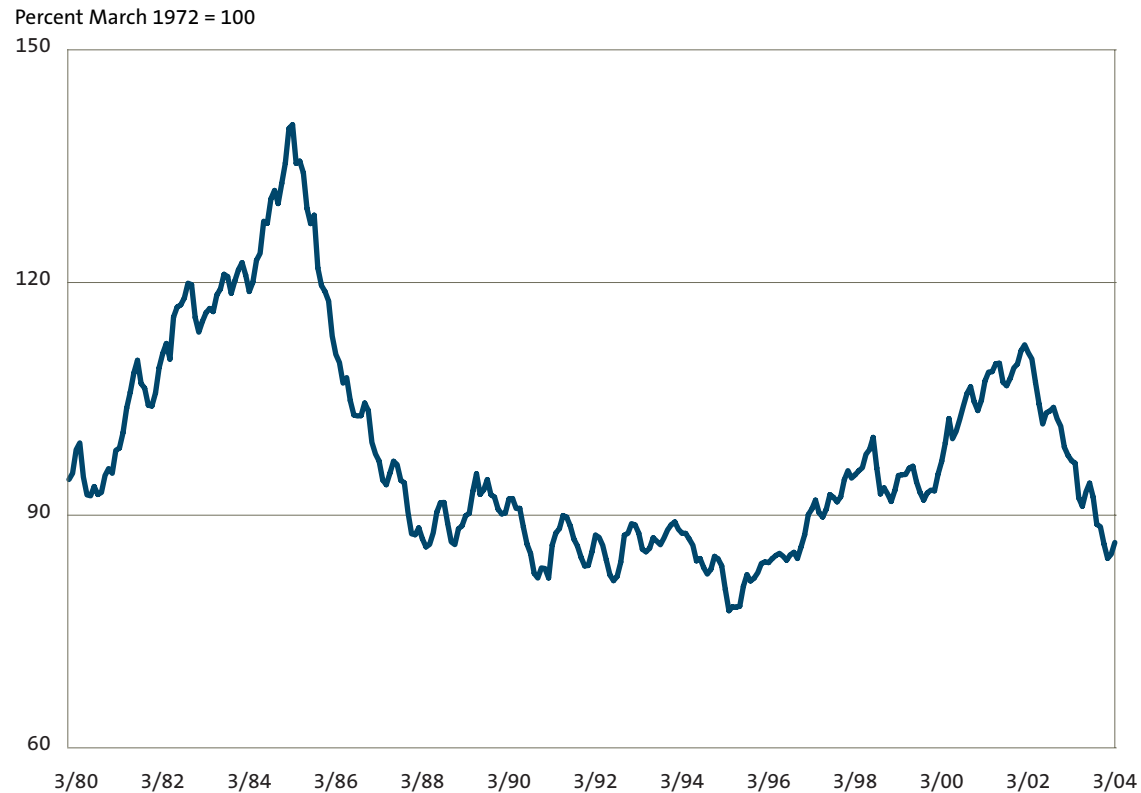
Historical Return  
(% per Year)



Statistics based on monthly gross returns.

## Trade-Weighted Value of the U.S. Dollar vs. Major Currencies

January 1, 1980 through March 31, 2004



Source: Federal Reserve Board, Haver Analytics.

### T. Rowe Price International Outlook

#### We believe:

- Dollar stability quite possible in the short term, but renewed weakness likely later in 2004. The euro to be less favored in 2004 compared with 2003, but the yen likely to be the strongest of the major currencies. Asian currencies to track the strong yen.

# CURRENCY OVERVIEW

## **Not currently hedged**

### **T. Rowe Price International analysis seeks to:**

- Identify long-term trends
- Watch for medium-term trends around the long-term move

### **Currency views incorporated into:**

- Country weightings
- Industry exposure
- Stock selection

### **Modest hedging occasionally used to:**

- Provide limited protection against a medium-term uptrend in the dollar
- Neutralize currency underweightings relative to the benchmark



# GLOBAL ECONOMIC OUTLOOK

As of March 31, 2004

## Europe

- Broad economy is following U.S. with customary time lag and with less fiscal and monetary impetus
- Peripheral economies to continue to outperform core
- Interest rates will move higher in the U.K., but remain stable in the euro zone for some time

## Japan

- Economy now expanding rapidly led by growth in external demand but with increasing signs that the domestic consumer is regaining confidence
- Corporate profits advancing strongly as a result of top-line improvement and restructuring
- Increasing confidence that this time the recovery is for real with the banking sector now on the mend

## Asia

- Growth to remain robust throughout Asia with a sharp recovery expected for the SARS-affected economies in 2004
- Intraregional growth to become more important than the direct impact of the path of the U.S. economy
- Growth in China will moderate, as it needs to, but China will remain a positive influence on the rest of the region

## Latin America

- Recovery in Mexico to gradually gain in strength
- Brazil to see sharp recovery in growth, though mostly in the second half of 2004. Concerns growing as to whether Lula can stay the course, but we think he will stick to orthodox policies despite pressure from within his own party

## **Exhibits**

Fee Schedule

Performance Statistics Glossary

Portfolio Specialists

Biographical Backgrounds

# FEE SCHEDULE

## International Stock Fund<sup>1</sup>

Fiscal 2003

### Shareholder Transaction Expenses —

Sales Load “Charge” on Purchases	None
Sales Load “Charge” on Reinvested Dividends	None
Redemption Fees	None
Exchange Fees	None

### Annual Fund Expenses —

Ratio of Total Expenses to Average Net Assets	0.92%
Distribution Fees (12b-1)	None
Total Fund Expenses	0.92% <sup>2</sup>

<sup>1</sup> International Stock Fund expense ratio includes the Fund’s management fee and operating expenses including custody and shareholder servicing costs.

<sup>2</sup> Compares to 1.91% average expense ratio of international funds in Morningstar universe as of 3/31/04.

# PERFORMANCE STATISTICS GLOSSARY

**Alpha** – A measure of a strategy's risk-adjusted performance. Alpha represents the difference between a strategy's actual returns and its expected performance, given its level of risk as measured by beta. The difference is expressed as an annualized percentage.

**Beta** – A measure of the market risk of a strategy showing how responsive the strategy is to a given market index, such as the S&P 500 Index (an index for equity strategies) or the Lehman Brothers Government/Corporate Bond Index (an index for fixed income strategies). By definition, the beta of the benchmark index is 1.00. A strategy with a 1.10 beta is expected to perform 10% better than the index in up markets and 10% worse in down markets. Usually, higher betas represent riskier investments.

**Information Ratio** – A measure of the significance or quality of alpha. It is defined as the ratio of alpha to the standard deviation of alpha. A larger number is better – either a very strong alpha score or a consistent alpha with low standard deviation.

**R-Squared** – Measures the percentage of a strategy's movement that is explained by movements in the benchmark index. R-Squared helps indicate the accuracy of a strategy's alpha and beta.

**Sharpe Ratio** – A risk-adjusted measure, which is calculated using standard deviation and excess return to determine reward per unit of risk. The higher the sharpe ratio, the better the strategy's historical risk-adjusted performance.

**Standard Deviation** – Indicates the volatility of a strategy's total returns as measured against its mean performance. Unlike alpha, beta, and R-Squared, which are compared with a benchmark index, standard deviation is strategy specific. In general, the higher the standard deviation, the greater the volatility or risk.

**Historical Tracking Error** – Standard deviation of the strategy's excess return over the market benchmark.

# PORTFOLIO SPECIALISTS

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Portfolio Specialists work closely with portfolio managers and analysts and can provide detailed commentary on the investment strategies they follow.

# BIOGRAPHICAL BACKGROUNDS

## **Kurt A. Umbarger, CFA**

Kurt Umbarger is a Vice President of T. Rowe Price International. He is a Portfolio Specialist in the Institutional Sales and Client Service division of T. Rowe Price International. Prior to his current position, Kurt was a Marketing Client Service Representative in the T. Rowe Price International Group. Kurt has been with the firm since 1992. Kurt earned a B.S. in Finance from Towson University and an M.S.F. in Finance from Loyola College. He has also earned the Chartered Financial Analyst accreditation and holds a Series 6, 7, 63, and 65 with the NASD.

## **R. Ryan Wagner**

Ryan Wagner joined T. Rowe Price in 1997 and currently serves as a Relationship Manager within Retirement Plan Services, Inc. In this role, he focuses on serving institutional Investment-Only clients within the public and private sectors of the defined contribution marketplace. Ryan earned a B.A. (Economics) and an M.B.A (Finance) from the University of Maryland. He has achieved the Series 6 & 63 NASD accreditations and is currently a Level III candidate in the Chartered Financial Analyst (CFA) Program.